Philippines: Import compression continues for 7th month

The narrowing of the trade gap usually translates into a short-term appreciation for the Peso but 2020 could be different

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October trade gap at -$3.25 bn

Philippine imports contracted for a 7th month as capital outlays failed to match last year's spending binge due to the government budget delay and depressed corporate investment appetite. The confluence of 2018 central bank rate hikes and the 5-month delay in the budget passage continue to weigh on overall investment activity. This is evident from the pullback in all major subsectors of the import bill. Meanwhile, exports managed to eke out growth with the electronics sector defying the global slowdown in trade, and posting a 0.1% increase from the same month last year.

Imports down 10.8%

Inbound shipments linked to investment and the government's infrastructure building program slipped into the red with capital goods down 4.1%YoY while raw materials dropped a jarring 19.3%. Heavy machinery used by corporates edged lower in October with power generation machines falling 5.7% and electrical machinery down by 2.4%. Meanwhile, materials linked to construction were likewise down with iron and steel plunging 31.7% and metal products falling by 14.7%. Lastly, given weaker global crude prices in October, energy imports fell by 13.3% in value.

Global headwinds? Electronics exports post 7% increase

The heavyweight electronics sector, which accounts for 56% of total exports, grew by 7%YoY, offsetting the 7.5% decrease for the rest of the export sector. For the year, outbound shipments of electronics have managed to gain 2.7%, once again making up for other exports which are down 3.2%. The relatively positive performance of the electronics subsector coincides with a strong gain in shipments to the United States, which is now the Philippines' main trading partner, posting year-to-date growth of 7.6%. Amidst the global headwinds, the Philippines has been able to find a destination for electronic products in the United States.

Narrowing trade gap benefits the Peso.. for now

The Philippines trade gap has narrowed in 2019, largely due to import compression while exports have managed to stay afloat amidst the ongoing trade war. The sustained pullback in capital machinery and raw materials imports reflects a worrisome trend with potential productive capacity likely curtailed by previous policy tightening and the 2019 budget delay. Meanwhile, the 11% narrowing of the year-to-date trade deficit has helped provide some support for the Peso for most of the year. In the short term, the Peso will continue to enjoy an appreciation bias on holiday remittance flows and the narrowing trade gap. However, increased demand for foreign currency coupled with a projected easing from the Bangko Sentral ng Pilipinas (BSP) in February 2020 will likely see an end to the recent strengthening bias for PHP as early as 1Q 2020.